



NEW WITHHOLDING REQUIREMENTS FOR PENSION AND RETIREMENT DISTRIBUTIONS, EFFECTIVE JANUARY 1, 2012

On May 25, 2011, Governor Rick Snyder signed legislation amending the Michigan Income Tax Act and enacting into law the Michigan Corporate Income Tax (CIT). The revised Act includes changes to withholding, including those changes below dealing with pension and retirement distributions. These new requirements take effect January 1, 2012.

Payers are required to withhold tax from pension and retirement distributions. Beginning January 1, 2012, companies that pay pension and retirement benefits will be required to withhold Michigan income taxes from payments to retirees. The withholding will be 4.35% of the taxable portion of the pension or retirement distribution.

Types of distributions subject to withholding. Pension and retirement benefits include payments made from a pension, individual retirement account, annuity, profit-sharing, stock bonus or other deferred compensation plan. Also included are annuity payments or endowment or life insurance contract payments issued by a life insurance company.

Withholding is not required on tax exempt pension or retirement distributions. Withholding is not required on the portion of a pension or retirement distribution that is exempt from tax. The portion of a distribution that is exempt from tax depends on:

- *Date of birth.* See the [pension and retirement benefits chart](#) to determine whether any portion of the distribution is exempt. Note that for joint filers, the date of birth of the oldest spouse determines the exemption category.
- *Personal exemptions.* The number of personal exemptions may reduce the taxable portion of a distribution. However, the personal exemptions begin to phase out when total household resources exceed \$75,000 for a single filer or \$150,000 for joint filers and are unavailable after total household resources reach \$100,000 for a single filer and \$200,000 for joint filers.
- *Excluded from federal tax.* In certain situations, some distributions will not be included in federal adjusted gross income (AGI). If a portion of a distribution is not in AGI, then it is not subject to Michigan income tax.

Optional withholding certificate. Payers will withhold 4.35% for Michigan income tax on all distributions that are included in federal adjusted gross income unless the Payer receives a withholding certificate from a retiree. The Michigan Department of Treasury will make withholding certificates available before January 1, 2012. A withholding certificate may be used to determine how much of a distribution is exempt from tax because of personal exemptions or because of the age of the retiree. The retiree may provide the withholding certificate to a Payer.